

C

IN THE MATTER OF

**Abitibi Power & Paper Company,
Limited**

Twelfth Report
of Receiver and Manager

27th May, 1944

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Abitibi Power & Paper Company, Limited

TWELFTH REPORT of Receiver and Manager

1—Attached hereto is audited Balance Sheet of Abitibi Power & Paper Company, Limited (hereinafter called Abitibi) as of date December 31st, 1943; also statement of the consolidated operating results of such Company and its wholly-owned subsidiaries, for the calendar year ending on such date. By reason of the shortage in paper supplies—and with the approval of The Supreme Court of Ontario—audited Balance Sheets and Profit and Loss accounts of certain of such subsidiaries, which statements have heretofore been provided with the annual reports of the undersigned, are omitted from this Report.

2—Shipments of newsprint by Canadian companies in the calendar year 1943—as compared with those in each of the years ending December 31st, 1942 and 1941—were as follows:

	In 1943	In 1942	In 1941
To Canada.....	192,820 tons	202,536 tons	196,766 tons
To The United States.....	2,549,759 tons	2,810,832 tons	2,770,002 tons
To Overseas markets.....	266,807 tons	195,312 tons	487,897 tons
Total.....	3,009,386 tons	3,208,680 tons	3,454,665 tons

Upon the above basis, shipments in 1943 were approximately 6% less than in 1942, and 13% less than they were in 1941.

3—Since September 4th, 1942, the quantities of newsprint manufactured and shipped (monthly) by Abitibi mills/those of its subsidiaries, have been subject to the control and direction of a Canadian Newsprint Administrator. In 1943 newsprint manufactured by such mills amounted to 470,750 tons, as compared with 412,873 tons in 1942, and 454,840 tons in 1941. Of such production Abitibi was required (under such Administration) to provide 64,687 tons in 1943 and 14,732 tons in 1942, at the increment costs thereof, and without profit to itself. Effective as of date March 1st, 1943, the price permitted to be charged for newsprint in the United States was increased by \$4. per ton, and again—effective as of date September 1st, 1943—by a further \$4. per ton—to a base contract price of \$58. per ton—United States funds—with freight allowed to destination. Such increases in prices were granted by reason of increases in costs of manufacture.

4—Wood pulps produced by Abitibi mills in 1943—as compared with those produced in each of the years 1942 and 1941—were as follows:

	In 1943	In 1942	In 1941
<i>At Smooth Rock Falls (Ontario) pulp mill</i>			
Sulphite pulps—bleached.....	63,447 tons	63,025 tons	60,582 tons
—unbleached.....	—	—	948 tons
—screenings.....	2,577 tons	1,423 tons	2,272 tons
	66,024 tons	64,448 tons	63,802 tons
<i>At the newsprint mills of the Company</i>			
Sulphite pulps—newsgrade.....	42,393 tons	44,183 tons	28,454 tons
Groundwood pulps.....	—	5,127 tons	968 tons
Total.....	108,417 tons	113,758 tons	93,224 tons

Expectation is that it will be found possible to operate the Smooth Rock Falls pulp mill at approximately full capacity, throughout 1944, but that shipments of newsgrade sulphite pulp, from the newsprint mills of the Company, will be substantially less in 1944 than in 1943—this due to shortages of pulpwood/woods labor.

5—Prices for bleached sulphite pulps—shipped to the United States, in 1943—were, on the average, about \$76. per ton (United States funds) with freight allowed to destination—this as compared with about \$76. per ton in 1942 and 1941. Prices for newsgrade sulphite pulps shipped to the United States in 1943, were, on the average, about \$66. per ton (United States funds) with freight allowed to destination. This as compared with \$64. per ton in 1942 and 1941.

6—No substitute wood fibre products were manufactured/supplied by Abitibi/its subsidiaries in 1943. In 1942, products of such kinds—manufactured and shipped—amounted to 10,009 tons, and in 1941 to 19,287 tons.

7—As of date March 31st, 1942, pulpwood inventories on hand at the mills of Abitibi and its wholly-owned subsidiaries, and in the bush, amounted to approximately 833,700 cords. In the latter part of 1942, and at times since, the burden was/has been imposed upon Abitibi (by the Newsprint Administrator) of providing substantial quantities of newsprint to the customers of certain other Canadian Companies which were unable to produce the same by reason of the temporary or other withdrawal of electric power from them, for war requirements purposes. As a result of such conditions and a shortage of woods labor in the Cutting Season of 1942/1943, pulpwood inventories on hand at Abitibi mills/those of its subsidiaries, and in the bush, on March 31st, 1943, were reduced to about 701,550 cords. With a continuance of such shortage of woods labor, and with the quantities of newsprint which Abitibi has since been required to supply—monthly—under the administration of the Canadian Newsprint Industry—pulpwood inventories on hand at Abitibi mills/those of its subsidiaries, and in the bush, amounted, on March 31st, 1944, to approximately 605,000 cords.

8—In 1943, operations of the properties of Abitibi/its wholly-owned subsidiaries continued to be conducted—as hereinbefore mentioned—subject to the provisions of Order No. 222 of The Wartime Prices and Trade Board, and subsequent Orders (respecting administration of the Canadian Newsprint Industry) of such Board; also, to those of other Orders affecting the purchase of pulpwood/materials/supplies—the employment of labor and wages to be paid to the same—the employment of administrative/clerical and other assistance and the salaries permitted to be paid to the same—and the acquisition of equipment and supplies, for the maintenance of properties and facilities, and to meet other requirements.

RELATIVE TO RESULTS OF OPERATIONS FOR THE YEAR ENDING DECEMBER 31ST, 1943

9—Audited statement of the consolidated earnings of Abitibi/its wholly-owned subsidiaries for the year ending December 31st, 1943 is attached hereto as Exhibit 1-C. Such statement shows earnings to have been as follows:

Excess of income over operating expenses prior to charges for depreciation, bond interest and income/excess profits taxes—as set out in Exhibit 1-C.....	\$9,808,093.27	
<i>Less:</i>		
(a) Amount provided for depreciation upon the properties of Abitibi and its wholly-owned subsidiaries.....	\$4,500,000.00	
(b) Bond interest for year.....	\$1,629,011.25	
Reserved for the premium, if any, which may require to be provided by Abitibi to permit the above interest to be paid in the equivalent of United States funds.....	179,191.24	
		1,808,202.49
(c) Reserves for:		
—interest for the year, if any, upon overdue and unpaid bond interest.....	\$1,332,328.41	
—the premium, if any, which may require to be provided by Abitibi to permit the above interest to be paid in the equivalent of United States funds.....	146,556.12	
		1,478,884.53
Forward.....	\$7,787,087.02	\$9,808,093.27

Forward.....	\$7,787,087.02	\$9,808,093.27
(d) Reserve for interest, for the year, upon the unpaid premium, which may require to be provided by Abitibi to permit the amounts paid to Bondholders on October 15th, 1941, April 15th, 1942 and June 30th, 1943, to be paid in the equivalent of United States funds	\$ 86,277.27	
Reserve for interest, for the year, on overdue interest—in respect of the above.....	3,876.03	90,153.30
(e) Reserve for income/excess profits taxes.....	1,000,000.00	8,877,240.32

leaving a balance, applicable in reduction of the "Deficit from operations during the period of Receivership"—but subject to the comments hereinafter contained—of \$ 930,852.95

—In respect to the foregoing, the following comments are made:

RELATIVE TO ITEMS INCLUDED IN INCOME FOR THE YEAR

- (1) Income from sales of newsprint/wood pulps, in 1943, amounted to \$28,673,264.64, of which—it is estimated—approximately \$3,000,000. was received from newsprint required to be supplied to the customers of other Canadian Companies (under the directions of the Newsprint Administrator) upon an increment cost basis, and without profit to Abitibi/its wholly-owned subsidiaries.
- (2) Sales of electric power—by Abitibi—to the public, and by wholly-owned subsidiaries of Abitibi to the public and mills owned by Abitibi, amounted in 1943, to \$1,266,792.01.
- (3) Net premium received from sales of United States exchange amounted, in 1943, to \$2,486,101.37, included in which was the estimated amount of \$270,000. (in the item of \$1,168,759. shown on Schedule 1-C) recovered in connection with sales of newsprint to customers of other Canadian Companies (under the direction of the Newsprint Administrator) which had to be accounted for. The approximate balance of \$2,216,101.37 was prior to deduction of the premium, if any, which may require to be provided, by Abitibi, to permit interest due and accrued (in the year)—to be paid in the equivalent of United States funds. Question has been raised before The Supreme Court of Ontario as to the liability of Abitibi to provide such premium.

RELATIVE TO ITEMS INCLUDED IN OPERATING EXPENDITURES FOR THE YEAR/THE ABOVE DEDUCTIONS FROM EARNINGS

- (4) Expenditures—in 1943—for the maintenance and repair of properties amounted to \$1,622,141.54—as compared with \$1,679,141.44 in 1942—a reduction of \$56,999.90.
- (5) Costs of carrying idle mills/properties amounted to \$81,385.39, in 1943, as compared with \$126,815.07 in 1942—a reduction of \$45,429.68. Such reduction was attributable to sale of the idle Espanola property—as of date January 15th, 1943.
- (6) Questions have recently been raised before The Supreme Court of Ontario with respect to:
 - (a) the liability of Abitibi to pay interest upon overdue and unpaid bond interest—as set out (for the year) in item 9(c) above;
 - (b) the liability of Abitibi to pay the premium, if any, which would require to be provided to permit the interest (for the year) in item 9 (b), and that in item 9 (c)—if any—to be paid in the equivalent of United States funds; and
 - (c) the liability of Abitibi to pay the interest in item 9 (d) above mentioned.
- (7) Reserved for income/excess profits taxes upon the consolidated earnings of Abitibi/its wholly-owned subsidiaries (for the year) is the amount of \$1,000,000. Hereinafter contained are certain comments with respect to the income/excess profits taxes payable by Abitibi/its wholly-owned subsidiaries in each of the calendar years 1940 to 1943, inclusive.

RELATIVE TO BALANCE SHEET OF DECEMBER 31ST, 1943

10—Balance Sheet of Abitibi as of date December 31st, 1943—as audited by Messrs. Price, Waterhouse & Co.—is attached hereto as Exhibit 1. In connection with items included therein, the following comments are made:

IN RESPECT OF ITEMS INCLUDED ON THE ASSET SIDE OF THE BALANCE SHEET

- (a) As of date December 31st, 1943, certain Hearst companies were indebted to Abitibi and its wholly-owned subsidiaries in the amount of \$1,639,042.31, as security for the payment of which, and the claims of certain other Creditors, certain securities stand lodged with a corporate Trustee. Such securities are of such character that no sound estimate of their realizable value can be made at this time. In 1938, a Contingent Reserve of \$750,000., (as shown under Receiver's Liabilities in Exhibit 1) was set up, with the approval of Court, as a provision against receivables owing to the Company and its wholly-owned subsidiaries, and in respect of unforeseen and other contingencies. Such reserve is believed to be adequate for such purposes. In addition to the above Contingent Reserve—and as mentioned in previous Reports—is a reserve of \$300,000., maintained in respect of the pulpwood inventories of Abitibi and its wholly-owned subsidiaries, which reserve is not believed to be required at the present time. Other specific reserves held, and not believed to be required for the purposes for which they were set up, were estimated to amount to about \$50,000. on December 31st, 1943. The amount of Receiver's current assets—as shown in Exhibit 1—is after deduction of such pulpwood and other specific reserves.
- (b) During the year expenditures made and liabilities incurred in connection with capital improvements and additions to mills and properties owned by Abitibi and its wholly-owned subsidiaries amounted to \$100,786.16; such expenditures/the incurring of such obligations, were approved by The Supreme Court of Ontario.
- (c) With the approval of The Supreme Court of Ontario, the investment of Abitibi in connection with purchase of the shares of The G. H. Mead Company was written down from \$500,000., as of date December 31st, 1942, to \$400,000., as of date December 31st, 1943.
- (d) As of date January 15th, 1943—and with the approval of Court—sale of the so-called Espanola properties was effected for the sum of \$975,000. cash. Such sale required the writing off by Abitibi of a book loss of \$8,443,591.05, which exhausted the "Nominal Surplus of Period Prior to Receivership"—\$3,041,714.09—as shown on the Balance Sheet of December 31st, 1942, and, with reserve of the amount of \$1,008,780.30 to cover the exchange premium, if any, which Abitibi may have to provide to permit the payment of \$9,170,730. to Bondholders (on June 30th, 1943) to be made in the equivalent of United States funds, created a deficit for such period, of \$6,410,657.26—as shown in the Balance Sheet of December 31st, 1943.
- (e) "Deficit from Operations During the Period of Receivership" to December 31st, 1943 is shown on the Balance Sheet—of such date—at \$13,297,376.17. Such Deficit was after charge of the items in Footnote VI to such Balance Sheet mentioned. Question has recently been raised before The Supreme Court of Ontario as to the liability of Abitibi to pay each of the items opposite which the mark * is printed, in such footnote.

IN RESPECT OF ITEMS INCLUDED ON THE LIABILITY SIDE OF THE BALANCE SHEET

- (f) Included under the heading of "Sundry Liabilities of Receiver" is a Reserve of \$970,000. in respect of the Income/Excess Profits Taxes remaining due by Abitibi/its wholly-owned subsidiaries (as of date December 31st, 1943) after the payment of \$1,380,000. in respect thereof. Since issue of the last Report of the undersigned certain questions have been raised by The Department of National Revenue (of Canada) as to the bases adopted by Abitibi/its wholly-owned subsidiaries (and also by a number of other Canadian Newsprint Companies) in computing their annual earnings for income/excess profits tax purposes. Until such questions are settled, and the Standard Profits of Abitibi/its wholly-owned subsidiaries are fixed and determined by the Board of Referees empowered to do so (under the Excess Profits Tax Act)—which has not yet been done—Abitibi is left in the position where it is unable to accurately compute its liability for income/excess profits taxes for each of the years 1940 to 1943, inclusive, and/or the aggregate amount of its unpaid liability—on December 31st, 1943—in respect of the same.

(g) Included under the heading of "Sundry Liabilities of Receiver" is a "Contingent Reserve" of \$750,000. Such reserve was set up in 1938—with the approval of Court—as a provision against possible losses in respect of receivables owing to Abitibi/its subsidiaries, and in respect of unforeseen and other contingencies. Certain claims, of a contingent nature, are outstanding against Abitibi/the Receiver in respect of which settlements may require to be made. Such settlements, if made, will serve to reduce the amount of such Reserve.

(h) Included in the claim of First Mortgage Bondholders to December 31st, 1943—as shown in the Balance Sheet of such date—are the following items:

(1) Principal of the Abitibi First Mortgage 5% Bonds outstanding \$27,994,860.00

Such amount is, under the Mortgage Deed of Trust securing the above bonds, payable at the option of Bondholders in Canadian/Sterling/United States funds. The premium which Abitibi may require to provide to permit payment of such amount to be made in the equivalent of United States funds has not been added thereto—in the Balance Sheet—for the reasons that the liability of Abitibi to pay the same is being disputed, and the amount of such premium, if any, cannot presently be determined. At present rates of exchange (11%)—such premium would amount to \$3,079,435.

(2) (a) Reserve for the amount, if any, which may require to be provided by Abitibi to permit the payments to Abitibi Bondholders on October 15th, 1941, April 15th, 1942 and June 30th, 1943 to be made in the equivalent of United States funds..... \$2,229,935.40

Interest on the above—including interest upon unpaid interest—to December 31st, 1943..... 151,618.94
\$ 2,381,554.34

(b) Reserve for the amount, if any, which may require to be provided by Abitibi to permit payment of \$27,828,231.07 interest due and accrued upon Abitibi bonds—to December 31st, 1943—to be paid in the equivalent of United States funds..... \$ 3,061,105.42

(c) Reserve for the amount, if any, which may require to be provided by Abitibi as interest upon overdue and unpaid bond interest—to December 31st, 1943..... \$8,402,752.59

Reserve for the amount, if any, which may require to be provided by Abitibi to permit payment of the above interest to be made in the equivalent of United States funds..... 924,302.78
\$ 9,327,055.37

Question has been raised before the Supreme Court of Ontario as to the legal liability of Abitibi to pay the amounts in 2 (a), 2 (b) and 2 (c) above mentioned.

(3) The amount of the liability of Abitibi (on December 31st, 1943) to the holders of its 5% First Mortgage Bonds—shown at \$70,610,442.61 in the Balance Sheet of such date—is subject to the qualifications in (1) and (2) above mentioned.

RELATIVE TO RECEIVER'S NET CURRENT ASSETS

11—Excluding

- the principal amount owing upon Abitibi bonds, which is due and payable, following default;
- interest overdue/accrued due and unpaid upon the above bonds; interest, if any, upon such overdue interest; the premium, if any, on bond interest/on interest (if any) on overdue interest/and on the payments made in reduction of the principal of the Abitibi bonds outstanding; and interest (with interest on overdue interest thereon) upon the premium, if any, which may require to be paid by Abitibi to permit the payments to Bondholders on October 15th, 1941, April 15th, 1942 and June 30th, 1943, to be made in the equivalent of United States funds; and

- (c) such, if any, additional income/excess profits taxes (in excess of payments made/reserves set up) as may prove to be payable by Abitibi/its wholly-owned subsidiaries in respect of their consolidated earnings for the calendar years 1940 to 1943, inclusive,

Receiver's net current assets were:

As of date December 31st, 1942

Receiver's current assets.....	\$27,284,570.85	
Less :		
Receiver's current liabilities including reserve of \$350,- 000. for Income/Excess Profits Taxes and Contingent Reserve of \$750,000.....	2,549,298.65	\$24,735,272.20

As of date December 31st, 1943

Receiver's current assets.....	\$28,148,126.40	
Less :		
Receiver's current liabilities, including reserve of \$970,- 000. for Income/Excess Profits Taxes and Contingent Reserve of \$750,000.....	2,616,140.92	25,531,985.48

Showing an increase for the year, of..... \$ 796,713.28

The above increase was after the payment to Bondholders—as of date June 30th, 1943—of \$9,170,730. (Canadian funds) in reduction of the principal amount of the Abitibi 5% First Mortgage Bonds. Included in such \$9,170,730. was \$975,000. realized from the sale of the Espanola assets—as hereinbefore mentioned.

RELATIVE TO NEGOTIATIONS FOR SALE OF THE PROPERTIES OF KAMINISTIGUIA POWER CO., LIMITED

12—Since the date of issue of the last Report of the undersigned, certain negotiations have been had with The Hydro-Electric Power Commission of Ontario relative to the sale to it of the above properties. To the date hereof no agreement in respect thereto had been come to.

STEPS TAKEN SINCE ISSUE OF THE ELEVENTH REPORT OF THE RECEIVER AND MANAGER, WITH RESPECT TO DISPOSITION OF THE AFFAIRS OF ABITIBI, IN RECEIVERSHIP

- 13—(1) In July 1943 the Privy Council delivered its judgment allowing the appeal of the Liquidator from the Order of the Court of Appeal of Ontario. The judgment found that "The Abitibi Power & Paper Company Limited Moratorium Act, 1941" was within the powers of the Province of Ontario and accordingly set aside the Orders appealed from, and dismissed the motion for the sale of the assets of Abitibi.
- (2) On or about the 20th September, 1943, Hon. F. J. Hughes, K.C. and Messrs. W. Zimmerman, K.C. and Gilbert Jackson—all of Toronto—were appointed a Committee, by the Government of Ontario, to negotiate between the various parties of interest in Abitibi, in order to seek some agreement to take the Company out of Receivership and restore it to private management. Report is that such Committee has had various conferences with representatives of Bondholders, of First Preferred/of Second Preferred and of Common Stockholders, in respect thereto, but that—to the date hereof—no agreement had been come to between them, in such connection.
- (3) Under "The Abitibi Power & Paper Company Limited Moratorium Act, 1944", of the Province of Ontario, the provisions of "The Abitibi Power & Paper Company Limited Moratorium Act, 1941" and of "The Abitibi Power & Paper Company Limited Moratorium Act, 1942" were extended to remain effective and in force until the 30th day of June, 1945.

14—The undersigned desires, once more, to express his appreciation of the assistance and continued service rendered by the Abitibi Bondholders' Representative Committee, and in particular by the Advisory Committee thereof composed of Mr. J. P. Ripley, Chairman of Harriman Ripley & Co.,

Incorporated, New York; Mr. W. H. Somerville, General Manager of The Mutual Life Assurance Company of Canada, of Waterloo, Ontario; and Mr. Robert H. Reid, Managing Director of The London Life Insurance Company, of London, Ontario, in connection with the many problems and matters required to be dealt with in the Receivership.

15—This Report is supplementary to the Reports of the undersigned Receiver and Manager issued under date of February 28th, 1933, April 30th, 1934, April 15th, 1935, May 12th, 1936, March 25th, 1937, May 6th, 1938, May 15th, 1939, April 15th, 1940, May 5th, 1941, April 27th, 1942 and May 28th, 1943, and in preparing it the Receiver has had in mind the desirability of providing information, as certified by the Auditors' Reports, relative to the results of operations for the period of Receivership between January 1st, 1943 and December 31st, 1943; also of giving in a general manner a broad view of matters with which he has been called upon to deal. It is not intended, however, that the Report should exhaustively enter into all the numerous questions which have arisen in connection with the affairs of Abitibi Power & Paper Company, Limited or those of subsidiary corporations, or to make any representations or convey the impression that all matters which have or may prove to have a bearing upon the affairs of the Companies are made mention of in the Report. Statements attached and figures mentioned in the Report are accurate so far as the undersigned has been able to ascertain, but he does not represent or guarantee their correctness.

Toronto, May 27th, 1944.

G. T. CLARKSON,
Receiver and Manager.

AUDITORS' CERTIFICATE

PRICE, WATERHOUSE & CO.

G. T. CLARKSON, Esq., Receiver and Manager,
ABITIBI POWER & PAPER COMPANY, LIMITED,
TORONTO, ONTARIO.

ROYAL BANK BUILDING
TORONTO
April 29, 1944

Dear Sir:

We have made an examination of the books and accounts of Abitibi Power & Paper Company, Limited, G. T. Clarkson, Receiver and Manager, for the year ending December 31, 1943, and have been furnished with all the information and explanations which we have required.

The profits and losses of all subsidiary companies (except Provincial Paper, Limited) for the year ending December 31, 1943, as shown by the accounts of such companies, have been incorporated in the attached statements showing the results from the operations of the Receiver and Manager of Abitibi Power & Paper Company, Limited.

As shown by the balance sheet, reserves have been created in the accounts of the Receiver and Manager as at December 31, 1943 for interest due and accrued on the Five Per Cent. First Mortgage Gold Bonds and for the amount, if any, which may be required to permit payment thereof in the equivalent of United States funds; for the amount, if any, which may require to be provided as interest upon overdue and unpaid interest and the amount, if any, which may be required to permit payment thereof in the equivalent of United States funds; and for the amount which may require to be provided to permit the distributions made to Bondholders during the period of Receivership up to December 31, 1943 to be made in the equivalent of United States funds and for interest thereon, if any, including interest upon such interest. We are informed that questions have been raised as to the legal liability of the company to pay interest upon overdue and unpaid bond interest, and as to the amount of the liabilities for exchange premiums on interest and on payments on account of principal of the bonds. No reserve has been provided for exchange premium which may be required in connection with the principal amount of bonds outstanding at December 31, 1943.

Provision has not been made for depreciation of buildings, equipment and properties in the accounts of the Receiver and Manager of Abitibi Power & Paper Company, Limited, nor in the accounts of the subsidiary companies (other than Provincial Paper, Limited and The G. H. Mead Company) for the period from September 10, 1932 to December 31, 1936; during the seven years ending December 31, 1943, however, amounts aggregating \$24,005,000.00 were provided for depreciation in the accounts of the Receiver and Manager of Abitibi Power & Paper Company, Limited and in the accounts of the subsidiary companies (exclusive of the amounts provided by Provincial Paper, Limited and The G. H. Mead Company). No provision has been made since September 10, 1932, for the amortization of the book values of timber concessions in the accounts of the Receiver and Manager of Abitibi Power & Paper Company, Limited, nor in the accounts of the subsidiary companies other than Baie St. Paul Lumber Company, Limited. It is impracticable at this date to determine accurately the amount of the income and excess profits taxes in respect of the profits for the four years ending December 31, 1943; however, payments of \$1,380,000.00 were made up to December 31, 1943, and further amounts aggregating \$970,000.00 have been provided as a reserve in respect of such income and excess profits taxes.

The amount of \$750,000.00 shown as Contingent Reserve was transferred as of December 31, 1938 under authority of the Court from the accumulated amount available towards depreciation and bond interest from operations during the period of the Receivership to December 31, 1938. Such transfer was made in connection with a substantial account owing to The G. H. Mead Company by one of its largest customers for which, we are informed, certain security is held the value of which is impossible to determine at this time, and to provide for certain other contingencies. Under authority of the Court a further amount of \$1,500,000.00 was transferred as of December 31, 1941 as a reserve against inventories and other contingencies.

In the case of certain of the timber concessions and licenses the conditions required to be observed have, it is contended, not been fully complied with; what obligations, if any, the company may be under in this connection cannot be determined at the present time.

Provision has not been made in the accounts presented herewith for such amounts, if any, as may hereafter be allowed by the Court as fees and expenses of the Trustee for the Bondholders; of the Bondholders' Representative Committee; of the Liquidator, and/or as other costs and expenses properly payable by the Company, in connection with the Receivership proceedings.

With the exceptions as noted above and as to the values at which the investments in certain subsidiary companies, and in buildings, equipment, properties and timber concessions are carried, we report that, in our opinion, the accompanying balance sheet with the explanatory notes thereon shows the true financial position as at December 31, 1943 of Abitibi Power & Paper Company, Limited, G. T. Clarkson, Receiver and Manager, according to the best of our information and the explanations given to us and as shown by the books.

Yours very truly,

PRICE, WATERHOUSE & CO.

ABITIBI POWER & PAPER COMPANY, LIMITED

G. T. CLARKSON, RECEIVER AND MANAGER

BALANCE SHEET

DECEMBER 31, 1943

(showing also for comparative purposes the assets and liabilities as at December 31, 1942, as shown by the statement thereof contained in the eleventh report of the Receiver and Manager dated May 28, 1943).

	ASSETS	
	December 31, 1942	December 31, 1943
RECEIVER'S CURRENT ASSETS :		
Cash on hand and on deposit.....	\$ 3,241,467.10	\$ 4,587,699.41
Dominion of Canada Bonds at cost and market value.....	8,012,916.66	8,023,333.32
Investments in sundry bonds.....	231,553.00	222,953.00
Accounts receivable, less reserves, including estimated amounts receivable in connection with allocation of tonnage by Newsprint Administrator.....	1,410,501.77	1,895,066.22
Receivable from The G. H. Mead Company for newsprint shipments, less reserve.....	1,778,876.42	2,026,621.94
Net current assets of other subsidiaries....	4,080,180.87	3,747,183.32
Inventories of paper, pulp, wood and supplies on the basis of cost less reserves, as determined and certified to by responsible representatives of the Receiver and Manager, and expenditures on logging operations.....	8,529,075.03	7,645,269.19
	\$27,284,570.85	\$28,148,126.40
PAYMENT TO TRUSTEE FOR BONDHOLDERS	—	15,000.00
DEPOSITS WITH TRUSTEE FOR BONDHOLDERS.....	67,872.42	75,995.25
INVESTMENTS IN THE SECURITIES OF AND ADVANCES TO WHOLLY OWNED SUBSIDIARIES (See Note II) :		
Investments in and advances to wholly owned subsidiaries (exclusive of The G. H. Mead Company).....	\$39,714,783.62	\$37,304,316.91
Less—Amount included with Receiver's Current Assets above, represented by net current assets as shown by books of subsidiary companies.....	4,080,180.87	3,747,183.32
	\$35,634,602.75	\$33,557,133.59
Investment by Receiver in purchase of shares of The G. H. Mead Company, less amounts written off.....	500,000.00	400,000.00
	36,134,602.75	33,957,133.59
Forward.....	\$63,487,046.02	\$62,196,255.24

IN THE MATTER OF

ABITIBI POWER & PAPER COMPANY, LIMITED

G. T. CLARKSON, RECEIVER AND MANAGER

BALANCE SHEET

DECEMBER 31, 1943

(showing also for comparative purposes the assets and liabilities at December 31, 1942, as shown by the statement thereof contained in the eleventh report of the Receiver and Manager dated May 28, 1943).

LIABILITIES

	December 31, 1942	December 31, 1943
SUNDRY LIABILITIES OF RECEIVER :		
Wages accrued and payable.....	\$ 178,099.11	\$ 178,370.36
Sundry accounts payable.....	1,271,199.54	717,770.56
	\$ 1,449,298.65	\$ 896,140.92
Reserve for income and excess profits taxes, less payments on account.....	\$ 350,000.00	\$ 970,000.00
Contingent reserve.....	750,000.00	750,000.00
	1,100,000.00	1,720,000.00
	\$ 2,549,298.65	\$ 2,616,140.92
RESERVE AGAINST INVENTORIES AND OTHER CONTINGENCIES.....	1,500,000.00	1,500,000.00
FIVE PER CENT. FIRST MORTGAGE GOLD BONDS (See Note IV) :		
Outstanding.....	\$37,165,590.00	\$27,994,860.00
Interest due and accrued.....	26,199,219.82	27,828,231.07
Reserve for the amount, if any, which may require to be provided to permit payment of above \$27,828,231.07 of interest due and accrued to be made in the equivalent of United States funds	2,881,914.18	3,061,105.42
Reserve for the amount, if any, which may require to be provided as interest upon overdue and unpaid interest.....	7,070,424.18	8,402,752.59
Reserve for the amount, if any, which may require to be provided to permit payment of above \$8,402,752.59 of interest upon overdue and unpaid interest to be made in the equivalent of United States funds.....	777,746.66	924,302.78
Reserve for the amount, if any, which may require to be provided to permit the distributions made to Bondholders during the period of Receivership up to December 31, 1943 to be made in the equivalent of United States funds....	1,221,155.10	2,229,935.40
Reserve for the amount, if any, which may require to be provided as interest on the above amount of \$2,229,935.40, including interest upon such interest....	60,504.70	151,618.94
Reserve for tax rebates.....	17,636.41	17,636.41
	75,394,191.05	70,610,442.61
Forward.....	\$79,443,489.70	\$74,726,583.53

IN THE MATTER OF

ABITIBI POWER & PAPER COMPANY, LIMITED

G. T. CLARKSON, RECEIVER AND MANAGER

BALANCE SHEET

DECEMBER 31, 1943

ASSETS

	December 31, 1942	December 31, 1943
Forward.....	\$63,487,046.02	\$62,196,255.24
INVESTMENTS IN SHARES OF CORPORATIONS OTHER THAN WHOLLY OWNED SUBSIDIARIES :		
Shares of Provincial Paper, Limited at arbitrary value of.....	\$ 1,500,000.00	\$ 1,500,000.00
Miscellaneous, less reserves.....	635.00	635.00
	1,500,635.00	1,500,635.00
INVESTMENTS IN MILLS AND EQUIPMENT, RAILWAYS, WATERPOWERS, TOWNSITES AND BUILDINGS :		
(after deducting reserves for depreciation)	38,245,799.07	28,776,654.40
TIMBER CONCESSIONS AND FREEHOLD TIMBER OWNED :		
(after deducting depletion and other reserves).....	19,858,987.12	17,533,053.36
REAL ESTATE AND OFFICE BUILDINGS.....	328,394.96	328,546.32
PREPAID EXPENSES.....	292,809.16	281,139.59
TOTAL ASSETS.....	\$123,713,671.33	\$110,616,283.91
NOMINAL DEFICIT OF THE PERIOD PRIOR TO RECEIVERSHIP, Exhibit 1-A (See Note V).....	—	6,410,657.26
DEFICIT FROM OPERATIONS DURING THE PERIOD OF RECEIVERSHIP, after charging bond interest accruing therein, including interest upon over- due interest, and the amounts men- tioned in Note VI attached, Exhibit 1-B	14,369,266.27	13,297,376.17
	\$138,082,937.60	\$130,324,317.34

IN THE MATTER OF

ABITIBI POWER & PAPER COMPANY, LIMITED

G. T. CLARKSON, RECEIVER AND MANAGER

BALANCE SHEET

DECEMBER 31, 1943

LIABILITIES

	December 31, 1942	December 31, 1943
Forward	\$79,443,489.70	\$74,726,583.53
GENERAL CREDITORS' CLAIMS INCURRED PRIOR TO RECEIVERSHIP.....	750,998.38	750,998.38
CAPITAL STOCK :		
10,000 shares 7% Cumulative Preferred Stock of \$100.00 each.....	\$ 1,000,000.00	\$ 1,000,000.00
348,818 shares 6% Cumulative Preferred Stock of \$100.00 each (including 96 shares deposited for exchange of shares of The Spanish River Pulp and Paper Mills Limited).....	34,881,800.00	34,881,800.00
1,088,117 shares Common Stock without nominal or par value (including 67 shares deposited for exchange of shares of subsidiary companies).....	18,964,935.43	18,964,935.43
	<u>54,846,735.43</u>	<u>54,846,735.43</u>
NOMINAL SURPLUS OF THE PERIOD PRIOR TO RECEIVERSHIP,		
Exhibit 1-A.....	3,041,714.09	—
	<u>\$138,082,937.60</u>	<u>\$130,324,317.34</u>

This balance sheet is issued subject to the Notes appended and as to values of certain of the assets and to other matters as referred to in our report dated April 29, 1944.

PRICE, WATERHOUSE & CO.,
Auditors.

ABITIBI POWER & PAPER COMPANY, LIMITED

G. T. CLARKSON, RECEIVER AND MANAGER

NOTES TO BALANCE SHEET AS AT DECEMBER 31, 1943

- I.— The Receiver's Current Assets include \$3,184,146.54, chiefly accounts receivable, which, although receivable in United States funds, are expressed in Canadian dollars at par, and similarly there are sundry liabilities of the Receiver amounting to \$26,701.24 included in Canadian dollars at par which are payable in United States funds. No exchange premium has been taken up in the accounts of the Receiver and Manager as at December 31, 1943 in respect of these assets or liabilities which include a substantial amount owing by one of the largest customers of The G. H. Mead Company, partly in respect of which a contingent reserve is included with the liabilities of the Receiver.

Under the terms of the Indenture and Mortgage dated June 1, 1928 the 5% First Mortgage Gold Bonds and the interest thereon are payable in Canadian gold coin of the standard of weight and fineness existing June 1, 1928, or at the holder's option in gold coin of the United States of America of the standard of weight and fineness existing June 1, 1928, or in English sterling at the fixed rate of exchange of \$4.86 $\frac{2}{3}$ to the pound (£) sterling (see Note IV).

- II.— With the object of showing the net amount of the Investments in and Advances to Wholly Owned Subsidiary Companies, the advances and charges by the Abitibi Company to such subsidiaries are added to and grouped with the investments in the subsidiaries; similarly the accounts payable to the subsidiaries by the Abitibi Company and by the Receiver and Manager of the Abitibi Company are deducted from the investments in the securities thereof.
- III.— Dividends on 7% Cumulative Preferred Stock are paid to September 30, 1931. Dividends on 6% Cumulative Preferred Stock are paid to March 31, 1931.
- IV.— The balance of \$27,994,860.00 shown for 5% First Mortgage Gold Bonds outstanding at December 31, 1943 is after deducting payments made by Order of the Court in Canadian funds to Montreal Trust Company, as Trustee for the Bondholders, as shown below:

Dates of Payments	Amount	Dates of Credit in Reduction of Principal Monies due on Bonds
September 10, 1941	\$ 6,274,710.00	October 15, 1941
March 12, 1942	4,826,700.00	April 15, 1942
June 15, 1943	9,170,730.00	June 30, 1943
	<u>\$20,272,140.00</u>	

As stated in Note I above, under the terms of the Indenture and Mortgage dated June 1, 1928 the bonds and the interest thereon are payable at the holder's option in United States funds. As shown by the balance sheet reserves have been made for the amounts which may be required for exchange premium of 11% on United States funds in respect of payments aggregating \$20,272,140.00 above mentioned made in Canadian funds during 1941-43 to Bondholders and for interest accruing on such exchange premium, including interest on such interest; the amounts which may be payable in this connection are at issue.

As shown by the balance sheet reserves have also been made for exchange premium of 11% on United States funds which may be required in connection with bond interest due and accrued to December 31, 1943 including interest upon overdue interest; the amounts which may be payable in this connection are also at issue. No provision has been made for exchange premium which may be required in connection with the principal amount of \$27,994,860.00 of bonds outstanding at December 31, 1943.

- V.— The amount of \$6,410,657.26 shown for Nominal Deficit of the Period Prior to Receivership is after charging the undernoted amounts:

Reserved for the exchange premium, if any, which may require to be provided to permit the payments aggregating \$20,272,140.00 Canadian funds (in reduction of the principal amount of the First Mortgage Gold Bonds) to be paid in the equivalent of United States funds.....	\$2,229,935.40
Reserved in respect of interest accrued on the First Mortgage Gold Bonds up to the date of Receivership, September 10, 1932:	
Interest due and accrued.....	\$1,878,350.00

Forward..... \$1,878,350.00 \$2,229,935.40

IN THE MATTER OF

ABITIBI POWER & PAPER COMPANY, LIMITED

G. T. CLARKSON, RECEIVER AND MANAGER

NOTES TO BALANCE SHEET AS AT DECEMBER 31, 1943 (Cont'd)

Forward.....	\$1,878,350.00	\$2,229,935.40
The amount, if any, which may be required to permit payment of the above interest to be made in the equivalent of United States funds.....	206,618.50	
The amount, if any, which may require to be provided as interest upon overdue and unpaid interest.....	16,759.38	
The amount, if any, which may require to be provided to permit payment of the above interest upon overdue interest to be made in the equivalent of United States funds.....	1,843.53	
		<u>2,103,571.41</u>
		<u>\$4,333,506.81</u>

Question has been raised as to the amount of the liability of the company in respect of the above items.

VI.—The amount of \$13,297,376.17 shown for Deficit during the Period of Receivership is after charging the undernoted amounts :

Depreciation upon the properties of Abitibi and its wholly owned subsidiaries in respect of the seven years ending December 31, 1943.....	\$24,005,000.00
Reserved in respect of interest accruing on the First Mortgage Gold Bonds during the period of Receivership up to December 31, 1943 :	
Interest due and accrued.....	\$25,949,881.07
The amount, if any, which may require to be provided to permit payment of interest due and accrued to be paid in the equivalent of United States funds.....	2,854,486.92*
The amount, if any, which may require to be provided as interest upon overdue and unpaid interest..	8,385,993.21*
The amount, if any, which may require to be provided to permit payment of interest upon overdue and unpaid interest to be made in the equivalent of United States funds.....	922,459.25*
	<u>38,112,820.45</u>
Reserved for—	
Interest, if any, upon the unpaid premiums which may require to be provided to permit the amounts paid to Bondholders on October 15, 1941, April 15, 1942 and June 30, 1943 to be paid in the equivalent of United States funds.....	\$ 146,781.97*
The amount, if any, which may require to be provided as interest upon interest in respect of unpaid exchange premium on distributions to Bondholders as referred to above.....	4,836.97*
	<u>151,618.94</u>
Amounts set aside, under authority of the Court, as Reserves against Inventories and Contingencies.....	2,250,000.00
Payment of \$1,000,000.00 and amounts of \$350,000.00 and \$1,000,000.00 reserved in respect of income and excess profits taxes.....	2,350,000.00
Amounts written off the investment in shares of The G. H. Mead Company acquired during period of Receivership.....	387,995.65
	<u>\$67,257,435.04</u>

* Question has recently been raised in The Supreme Court of Ontario as to the liability of Abitibi to pay these items.

VII.—During the period of Receivership to December 31, 1943 capital expenditures (net) on the properties of Abitibi Power & Paper Company, Limited and its wholly owned subsidiaries amounted to \$3,446,790.17.

IN THE MATTER OF

ABITIBI POWER & PAPER COMPANY, LIMITED

G. T. CLARKSON, RECEIVER AND MANAGER

STATEMENT OF NOMINAL DEFICIT FOR THE PERIOD PRIOR TO RECEIVERSHIP AS
SHOWN BY THE BALANCE SHEET AS AT DECEMBER 31, 1943

PARTICULARS	AMOUNT
Nominal Surplus for period prior to September 10, 1932, as per balance sheet at December 31, 1942.....	\$3,041,714.09
DEDUCT:	
Book loss on sale as of January 15, 1943 of Espanola mill, timber rights and other assets relating thereto.....	\$8,443,591.05
Reserved for the exchange premium, if any, which may require to be provided to permit the payment of \$9,170,730.00 on June 30, 1943 in Canadian funds (in reduction of the principal amount of the First Mortgage Gold Bonds) to be paid in the equivalent of United States funds.....	1,008,780.30
	<u>9,452,371.35</u>
NOMINAL DEFICIT FOR THE PERIOD PRIOR TO SEPTEMBER 10, 1932, AS PER BALANCE SHEET AS AT DECEMBER 31, 1943 (SEE NOTE V).....	<u><u>\$6,410,657.26</u></u>

IN THE MATTER OF

ABITIBI POWER & PAPER COMPANY, LIMITED

G. T. CLARKSON, RECEIVER AND MANAGER

STATEMENT OF DEFICIT AS AT DECEMBER 31, 1943
FROM OPERATIONS DURING THE PERIOD OF RECEIVERSHIP

(Including also the results of wholly owned subsidiaries, exclusive of Provincial Paper, Limited)

PARTICULARS	AMOUNT
Deficit as at December 31, 1942 from operations during the period of Receivership, as described in Note V to the balance sheet as of that date	\$14,369,266.27
ADD :	
Reserved for interest upon interest, if any, up to December 31, 1942 on exchange premium, if any, which may require to be provided to permit the amounts paid on October 15, 1941 and April 15, 1942 (in reduction of the principal amount of Abitibi bonds) to be paid in the equivalent of United States funds.....	960.94
	<u>\$14,370,227.21</u>
DEDUCT :	
Credits applicable to prior years.....	\$ 272,755.79
Profit from operations during the year ending December 31, 1943, applied in reduction of deficit from operations during the Receivership period, Exhibit 1-C.....	930,852.95
	<u>1,203,608.74</u>
	<u>\$13,166,618.47</u>
ADD :	
Amount written off the investment in shares of The G. H. Mead Company	130,757.70
DEFICIT AS AT DECEMBER 31, 1943 from operations during the period of Receivership, carried to Balance Sheet, as described in Note VI thereto	<u><u>\$13,297,376.17</u></u>

IN THE MATTER OF

ABITIBI POWER & PAPER COMPANY, LIMITED

G. T. CLARKSON, RECEIVER AND MANAGER

STATEMENT SHOWING RESULT FROM OPERATIONS
FOR YEAR ENDING DECEMBER 31, 1943

(Including also results of wholly owned subsidiaries, exclusive of Provincial Paper, Limited)

PARTICULARS	AMOUNT
INCOME :	
Sales of newsprint and other pulpwood products.....	\$28,673,264.64
Sales of power.....	1,266,792.01
	<u>\$29,940,056.65</u>
<i>Less</i> —Operating costs, including administration, superintendence, selling and general expenses, but before providing for depreciation	21,429,386.56
	<u>\$ 8,510,670.09</u>
<i>Add</i> —Premium on U.S. funds (net).....	2,486,101.37
	<u>\$10,996,771.46</u>
<i>Deduct</i> —Estimated adjustments (net) with Commodity Prices Stabili- zation Corporation Limited in respect of above sales and costs and exchange premiums for the year 1943 under the system of allocating newsprint tonnage.....	1,168,759.00
	<u>\$ 9,828,012.46</u>
NOTE : The above sales (which include tonnage produced for other manufacturers by direction of the Newsprint Administration), costs and premium on U.S. funds are gross figures which are subject to the deduction of their relative part of the above adjustments aggregating \$1,168,759 with the Commodity Prices Stabilization Corporation Limited; these adjustments cannot be accurately allocated as between sales, costs and exchange premiums.	
ADD :	
Interest and discount earned (net).....	\$ 221,746.91
Sundry minor operating profits.....	66,209.26
Profit on sale of Dominion of Canada bonds.....	26,250.00
	<u>314,206.17</u>
	<u>\$10,142,218.63</u>
DEDUCT :	
Cost of carrying idle mills and timber concessions tributary thereto :	
Mill idle costs including caretaking and insurance.....	\$26,178.15
Taxes on mills and townsites.....	12,034.15
Timber concessions—taxes, licenses and fees.....	43,173.09
	<u>\$ 81,385.39</u>
Cost of issue of Receiver's eleventh report.....	3,107.12
Cost of protection of properties against sabotage.....	89,252.95
Provision for legal and audit expenses.....	48,000.00
Paid to Receiver in respect of remuneration.....	48,000.00
Provision for U.S. Federal taxes on profits of The G. H. Mead Com- pany, etc.....	59,596.43
	<u>329,341.89</u>
Forward.....	<u>\$ 9,812,876.74</u>

IN THE MATTER OF

ABITIBI POWER & PAPER COMPANY, LIMITED

G. T. CLARKSON, RECEIVER AND MANAGER

STATEMENT SHOWING RESULT FROM OPERATIONS
FOR YEAR ENDING DECEMBER 31, 1943

(Including also results of wholly owned subsidiaries, exclusive of Provincial Paper, Limited)

PARTICULARS		AMOUNT
Forward.....		\$ 9,812,876.74
DEDUCT :		
Expenses of Liquidator.....	\$ 1,801.00	
Expenses of Bondholders' Representative Committee.....	1,801.20	
Paid in connection with third distribution to Bondholders.....	1,181.27	
		<u>4,783.47</u>
BALANCE available for depreciation of mills and properties and towards bond interest, before providing for income and excess profits taxes.....		\$ 9,808,093.27
LESS :		
Amount provided for depreciation for the year ending December 31, 1943 (including provisions shown on books of subsidiary companies)	\$ 4,500,000.00	
Amount reserved for income and excess profits taxes.....	1,000,000.00	
		<u>5,500,000.00</u>
		\$ 4,308,093.27
LESS :		
Reserved for—		
Interest due and accrued for the year 1943 on the First Mortgage Gold Bonds.....	\$ 1,629,011.25	
The amount, if any, which may require to be provided by Abitibi to permit payment of \$1,629,011.25 of interest to be paid in the equivalent of United States funds.....	179,191.24	
The amount, if any, which may require to be provided by Abitibi as interest upon overdue and unpaid interest.....	1,332,328.41	
The amount, if any, which may require to be provided by Abitibi to permit payment of \$1,332,328.41 to be made in the equivalent of United States funds.....	146,556.12	
		<u>\$ 3,287,087.02</u>
Reserved for—		
Interest, if any, for the year 1943 upon the unpaid premium which may require to be provided by Abitibi to permit the amounts paid to Bondholders on October 15, 1941, April 15, 1942, and June 30, 1943 to be paid in the equivalent of United States funds.....	\$ 86,277.27	
The amount, if any, which may require to be provided by Abitibi as interest upon interest in respect of unpaid exchange premium on distributions to Bondholders referred to above	3,876.03	
		<u>90,153.30</u>
		3,377,240.32
BALANCE, CARRIED TO EXHIBIT 1-B.....		<u>\$ 930,852.95</u>

